APPENDIX A

302 F.3d 749

**United States Court of Appeals,
Seventh Circuit.**

**Xu LIU, Plaintiff-Appellant,
v.
PRICE WATERHOUSE LLP and Computer Language Research, Inc., Defendants/Third-Party Plaintiffs-Appellees,
v.
Xiaomei Yang, Third-Party Defendant-Appellant.**

No. 01-1744, 01-2119.

**Argued Nov. 28, 2001.
Decided Sept. 10, 2002.
Rehearing and Rehearing En Banc Denied Oct. 17, 2002.**

Before WOOD, Jr., KANNE, and ROVNER, Circuit Judges.

KANNE, Circuit Judge.

A jury found against Xiaomei Yang and Xu Liu on various copyright- infringement, breach-of-contract, breach-of-fiduciary-duty, and conversion-of- property claims. Yang and Liu now appeal. First, Yang and Liu argue that the district court erred in denying their renewed motion for judgment as a matter of law or for a new trial and that it erred when it allowed Price Waterhouse and Computer Language Research, Inc.'s ("CLR") economic expert to introduce the results of telephone surveys as fact testimony. Further, Yang and Liu contend that the district court abused its discretion when it granted Price Waterhouse and CLR's motion for remittitur

and when it denied Yang's motion for prejudgment interest and costs. We affirm the judgment of the district court.

I. Background

Price Waterhouse's Tax and Technology Group developed and marketed a tax preparation software package, the Tax Management System ("TMS"). The TMS software was initially a DOS-based program. But in 1994, Price Waterhouse hired Patrick J. McNerthney to develop a Windows ® version (8.0) of the TMS software. McNerthney created a subprogram called RevUp32, which interfaced with the Windows ® TMS program to access files created with the DOS-based program. Price Waterhouse owned the copyrights pertaining to both the TMS software and the RevUp32 program until it sold most of its TMS business assets to CLR in December 1995.

In March 1995, Yang, an employee acting on behalf of Price Waterhouse, attempted to locate computer programmers in China who could increase the speed of the RevUp32 program in return for a fee and a commitment by Price Waterhouse to outsource future projects to China. Yang contacted several Chinese programmers and eventually selected the Sichuan Sky Company Limited (the "Sky Company") to do the work. Shortly thereafter, Yang became concerned that Price Waterhouse and the Sky Company might exclude her from future projects. To alleviate Yang's fears, Stephen Desmond, Price Waterhouse's partner in charge of the Tax Technology Group, prepared a letter dated May 22, 1995, stating that if Yang successfully met the objectives of the "China Project," Price Waterhouse would appoint her to lead future ventures in China.

Yang and Gerard Niles, Price Waterhouse's Chief Development Officer and Senior Vice President of the Tax Technology Group, subsequently worked out the details of the arrangement between Yang and Price Waterhouse and set forth their agreement in a written letter dated June 7, 1995. The letter, signed by Niles, stated in pertinent part:

Price Waterhouse LLP agrees to pay $25,000 (twenty-five thousand dollars) for each 25% increase in TMS speed resulting from work on the RevUp. After the initial 25% improvement is achieved, payment will be made in $1,000 increments for each percentage increase. For example, if the speed is increased by 49%, Price Waterhouse will pay $49,000.00.

* * *

Price Waterhouse will be given 30 days upon receipt of the object code to perform acceptance testing. If Price Waterhouse discovers problems, the consultants agree to resolve any and all issues on a timely basis. When issues are resolved, the consultants will give Price Waterhouse an additional 30 days upon receipt of the revised object code to perform acceptance testing. Upon successful completion of acceptance testing and verification of the speed increases, Price Waterhouse will pay the aforementioned amount.... The Tax Technology Group will supply the source code for the RevUp .... It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied or otherwise, to distribute or copy this source code in any way. Upon completion of the project, ALL source code will be given back to Price Waterhouse.

If this project is successful, Price Waterhouse will consider the same consultants as strong candidates for future development projects.

Price Waterhouse then disclosed to Yang the source code to the RevUp32 program.[1] In turn, Yang disclosed the RevUp32-program source code to the Sky Company programmers. Using the original source code to the RevUp32 pro-

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[1] The source code of a program is its operating instructions in a format that a computer programmer can read and use to maintain and revise a program.

gram, the Sky Company programmers successfully increased the speed of the RevUp32 program by 264%.

Upon completion of this newer, faster RevUp32 program (the "China RevUp32 program"), Yang sent the object code to the "China RevUp32 program" to Price Waterhouse.[2] [FN2] Although Yang was willing to turn over the object code to the China RevUp32 program, she refused to turn over the new source code unless Price Waterhouse guaranteed her future work in China, in addition to paying her the $264,000 she was due under the June 7, 1995 letter agreement. Price Waterhouse, however, refused to make any further guarantees to Yang and refused to pay Yang the $264,000 until the source code for the China RevUp32 program was turned over to Price Waterhouse. Subsequently, the Sky Company programmers asserted an ownership interest in the copyrights pertaining to the China RevUp32 program. They then proceeded to assign their asserted copyrights to Liu, Yang's daughter. Yang then registered the China-RevUp32-program copyrights in Liu's name.

In December 1995, CLR purchased the TMS software business from Price Waterhouse and began selling the TMS software, which incorporated the China RevUp32 program. Price Waterhouse and CLR then contacted Patrick McNerthney, the programmer who had authored the original RevUp32 program, and asked him to attempt to increase the speed of his original RevUp32 program. Because McNerthney was familiar with the original program, he was able to enhance the RevUp32 program for CLR in several weeks. Then, starting in November 1996, CLR substituted McNerthney's faster RevUp32 program for the China RevUp32 program in their TMS software.

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[2] An object code is operating instructions in a format that can be read by a computer, as opposed to the source code, which, as explained above, is read by a computer programmer.

In April 1997, Liu filed a suit for copyright infringement against Price Waterhouse and CLR for allegedly infringing her copyrights in the China RevUp32 program by selling the TMS software, which incorporated the China RevUp32 program. Price Waterhouse and CLR denied infringement and filed a counterclaim against Liu for copyright infringement, alleging that Liu infringed their copyrights in the China RevUp32 program by filing a copyright registration in her name. Price Waterhouse and CLR also filed a third-party complaint against Yang, alleging contributory copyright infringement, breach of fiduciary duty, conversion of property, and trade secret misappropriation.

The above-recited facts were adduced during a ten-day trial. Subsequently, the jury determined that Price Waterhouse and CLR validly owned the copyrights in both the original RevUp32 program and the China RevUp32 program. The jury further found that Liu had infringed these copyrights by asserting an ownership interest in the China RevUp32 program, that Yang had contributed to Liu's infringement, and that Yang breached her fiduciary duty to Price Waterhouse and had converted property. Additionally, Price Waterhouse was found to have breached the June 7, 1995 letter agreement by failing to pay Yang the $246,000 that was due to her. Further, Yang was found to have breached the same agreement by failing to turn over to Price Waterhouse the China-RevUp32-program source code upon completion of the China project.

In their answers to a series of special interrogatories, the jury found specifically that in the June 7, 1995 letter agreement, the parties intended that the copyrights pertaining to the China RevUp32 program would become the property of Price Waterhouse upon completion of the project and that the project was in fact completed. Further, the jury found that Yang was a Price Waterhouse employee while she worked in China and that therefore she was obligated to use her best efforts to protect Price Waterhouse's copyright interests. Additionally,

the jury determined that Yang had not used her best efforts to protect the China RevUp32 program while she was employed at Price Waterhouse.

The jury awarded Price Waterhouse and CLR $200 in damages for Liu's copyright infringement and $200 in damages for Yang's contributory infringement. The jury also awarded Yang damages in the amount of $600,000 for Price Waterhouse's breach of contract. Liu and Yang then moved for judgment as a matter of law or a new trial pursuant to Rules 50(b) and 59, on the grounds that the Sky Company programmers never actually assigned their ownership interests in the China RevUp32 program copyrights to Price Waterhouse and thus, Liu is the true owner of the China RevUp32 program. The district court rejected Liu and Yang's argument and denied their motions. The district court then granted Price Waterhouse and CLR's motion for remittitur, reducing Yang's award from $600,000 to $264,000 on the grounds that the only evidence Yang presented to the jury on her breach-of-contract claim was that Price Waterhouse owed her $264,000 pursuant to the June 7, 1995 letter agreement. Further, the court denied Yang's motion for prejudgment interest on her breach-of-contract claim and her motion for costs.

On appeal, Yang and Liu argue that the district court erred in denying their motion for judgment as a matter of law or for a new trial because Liu is the true owner of the China RevUp32 program and consequently neither she nor Yang could have infringed Price Waterhouse's copyrights. They contend that because the Sky Company programmers exclusively authored the China RevUp32 program, the ownership interest in the China RevUp32 copyrights vested in the programmers. Further, according to Liu and Yang, the June 7, 1995 letter agreement is not a valid transfer of copyright ownership from the Sky Company programmers to Price Waterhouse. Additionally, Yang and Liu contend that the district court abused its discretion in admitting hearsay testimony from Price

Waterhouse and CLR's economic expert; that the district court abused its discretion in granting Price Waterhouse and CLR's motion for remittitur; and that the district court abused its discretion in denying Yang's motion for prejudgment interest and costs.

II. Analysis

A. Renewed Motion for Judgment as a Matter of Law or a New Trial

We review the denial of a post-trial motion for judgment as a matter of law de novo but view the evidence in a light most favorable to the nonmoving party. *See Am. Nat'l Bank & Trust v. Reg'l Transp. Auth.*, 125 F.3d 420, 431 (7th Cir.1997). In applying this de novo standard of review, we evaluate whether any reasonable jury could have reached the same conclusion. *See id.* If we answer this question affirmatively, then we will not overturn the district court's denial of the motion. *See id.* With respect to Yang and Liu's motion for a new trial, we will only overturn the district court's denial of this motion for an abuse of discretion. *See id.* Under this standard, "we shall not second-guess the decision of a trial judge that is in conformity with established legal principles and, in terms of its application of those principles to the facts of the case, is within the range of options from which one would expect a reasonable trial judge to select." *Id.* (quotation omitted).

Yang and Liu do not dispute that Price Waterhouse authorized Yang and the Sky Company programmers to produce a derivative work using the original RevUp32 program. Instead, Yang and Liu contend that contrary to the findings below, the intent of the parties is irrelevant to the question of who owns the copyrights in the derivative work. They assert that even if the parties intended that Price Waterhouse would own the copyrights in the derivative work, Price Waterhouse by law cannot own these copyrights because the derivative work's authors did not execute a written document assigning

ownership of the derivative work to Price Waterhouse pursuant to 17 U.S.C. § 204(a). Section 204(a) provides that "[a] transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent." 17 U.S.C. § 204(a).

Yang and Liu's reasoning is flawed. Price Waterhouse, as the owner of the copyrights in the original RevUp32 program, possesses the exclusive right to prepare derivative works from this original program. *See* 17 U.S.C. § 106(2); *Stewart v. Abend*, 495 U.S. 207, 220, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990). Because Price Warehouse possesses such an exclusive right, in order for the Sky Company programmers to have lawfully prepared a derivative work, the programmers needed authorization from Price Waterhouse to use its original program. *See S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088-89 (9th Cir.1989). The June 7, 1995 letter agreement authorized Yang to recruit the Sky Company programmers to use its original work to prepare a derivative work. Because the trial court found that the language of the June 7, 1995 agreement was ambiguous, it was appropriate to look at the intent of the parties to determine the scope of the Sky Company programmers' authorization. The June 7, 1995 letter agreement stated that "[u]pon completion of the project, ALL source code will be given back to Price Waterhouse." Viewing this language in a light most favorable to Price Waterhouse and CLR, the license agreement provided that Price Waterhouse, not the Sky Company programmers, would obtain copyright ownership of the China RevUp32 program.

Further, obtaining copyright protection in the derivative work was beyond the scope of the permissible uses authorized by the June 7, 1995 letter agreement. *See* 1 NIMMER ON COPYRIGHT § 3.06, at 3-34.26 at 26(1) (2002) ("[T]he right to claim copyright in a noninfringing derivative work arises by operation of law, not through authority from the

copyright owner of the underlying work. *Nonetheless, if the pertinent agreement between the parties affirmatively bars the licensee from obtaining copyright protection even in a licensed derivative work, that contractual provision would appear to govern.*") (emphasis added); *see also Gracen v. Bradford Exch.*, 698 F.2d 300, 303 (7th Cir.1983) (stating that "[e]ven if [Gracen] was authorized to exhibit her derivative works, she may not have been authorized to copyright them").

Contrary to Yang and Liu's argument on appeal, because the Sky Company programmers never had any ownership interest in the copyrights in the derivative China RevUp32 program, 17 U.S.C. § 204(a) is inapplicable. As the district court explained:

> While the Copyright Act makes authors of derivative works the presumptive owners of copyright rights in their contribution, it also allows parties to adjust those rights by contract. Here, the jury found that the parties to the letter agreement did just that--agreed that Price Waterhouse would hold the copyright in the derivative work. Because of the ambiguity in the letter agreement, it was necessary and proper for the jury to consider "the parties" ' intent in entering into the letter agreement in order to determine the respective rights of Price Waterhouse, Yang and the subsequent authors of the derivative work, even though those subsequent authors, the Sky Company Programmers, did not sign the letter agreement.

Because the jury found that, pursuant to the June 7, 1995 letter agreement, the parties intended that Price Waterhouse would own the copyrights in the derivative work, we find no error in the district court's denial of Yang and Liu's motion for judgment as a matter of law and no abuse of discretion in

the district court's denial of Yang and Liu's motion for a new trial.[3]

B. Motion In Limine to Exclude Expert Testimony

Next, Liu argues that we should reverse the district court's denial of her motion in limine to exclude the testimony of Price Waterhouse and CLR's accounting expert, Julie Davis, on the issue of Liu's alleged damages due to Price Waterhouse and CLR's copyright infringement. We review a trial court's ruling on the admission of expert testimony for an abuse of discretion. *See Bourelle v. Crown Equip. Corp.*, 220 F.3d 532, 535 (7th Cir. 2000). However, we note that even if the district court abused its discretion in admitting Davis's expert testimony, such an error is not grounds "for granting a new trial or for setting aside a verdict or for vacating, modifying, or otherwise disturbing a judgment or order, unless refusal to take such action appears to the court inconsistent with substantial justice." Fed. R. Civ. P. 61; *see also Palmquist v. Selvik*, 111 F.3d 1332, 1339 (7th Cir. 1997) ("Disturbing the judgment of the district court on evidentiary grounds is necessary only if an erroneous ruling had a substantial influence over the jury.") (quotation omitted). Accordingly, we will not reverse a jury verdict if an erroneous admission of expert testimony is harmless; we recognize that an error is harmless if it did not contribute to the verdict in a meaningful manner. *See Jones v. Lincoln Elec. Co.*, 188 F.3d 709, 725 (7th Cir. 1999).

In the present case, Davis testified to the amount of damages Liu sustained on account of Price Waterhouse and CLR's alleged infringement of her copyrights. The jury, however, never actually reached this issue when determining their verdict because the jury found that neither Price Waterhouse

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[3] We do not need to reach the merits of Yang and Liu's second argument on appeal--that the district court erred in denying certain revised jury instructions regarding damages--as it relies upon a finding that Liu was the true owner of the copyright in the China RevUp32 program.

nor CLR was liable to Liu for any damages for infringement, as neither party was found to have committed copyright infringement. Therefore, Davis's testimony was irrelevant to the jury's verdict. Thus, even if we were to assume that the district court did err in denying Liu's motion in limine, we would not disturb the judgment of the district court as Davis's testimony cannot be shown to have had any influence at all upon the jury's verdict.

C. Motion for Remittitur

Next, Yang argues that the district court's grant of Price Waterhouse and CLR's motion for remittitur should be reversed because she claims that she is entitled to excess damages above and beyond the $246,000 under several different theories of tort liability. "[A] jury has wide discretion in determining damages." *Am. Nat'l Bank & Trust,* 125 F.3d at 437. And a "trial judge may vacate a jury's verdict for excessiveness only when the award was 'monstrously excessive' or the award has 'no rational connection to the evidence.' " *DeBiasio v. Ill. Cent. R.R.,* 52 F.3d 678, 687 (7th Cir. 1995); *see also Frazier v. Norfolk & W. Railway Co.,* 996 F.2d 922, 925 (7th Cir. 1993). Here, the district court explained that the only evidence Yang submitted in support of her breach-of-contract damages was her invoice to Price Waterhouse for $246,000. Additionally, Yang failed to plead any allegations of tortious conduct; the jury was never instructed on the elements of any torts that Yang now argues support the jury's $600,000 verdict; and finally, Yang consented to jury instructions that limited her contract damages to $264,000. This last reason standing alone is sufficient to find against Yang on appeal. *See Jabat, Inc. v. Smith,* 201 F.3d 852, 857 (7th Cir. 2000) ("When parties do not object to jury instructions, these instructions generally become the law of the case.") (quotation omitted). Once the law of the case is settled, the parties can only argue that the jury did not properly apply the instructions to the facts. *See id.* Consequently, we find no error in the district court's determination that a por-

tion of the jury's award was not rationally connected to the evidence.

D. Prejudgment Interest

Finally, Yang argues that under the Illinois Interest Act, 815 ILCS 205/2 (1998), she is entitled to prejudgment interest on her breach-of-contract claim.[4] Here, the district court denied Yang prejudgment interest because Price Waterhouse had a good-faith dispute with Yang regarding ownership of the source code in the China RevUp32. Yang argues that it does not matter that there was a good-faith dispute over the source code. Rather, Yang asserts that as long as the amount she was owed was readily ascertainable, she is entitled to prejudgment interest.

A district court's decision to award or deny prejudgment interest will not be disturbed unless that decision constitutes an abuse of discretion. *See Singer Co. v. Skil Corp.,* 803 F.2d 336, 341 (7th Cir. 1986). Under the Illinois Interest Act, a creditor is entitled to receive a 5% per annum interest rate on all monies after they become due if they are being withheld by an unreasonable and vexatious delay of payment. 815 ILCS § 205/2. However, if payment is being withheld in good faith, because of a genuine and reasonable dispute, interest will not be awarded. *See Gen. Dynamics Corp. v. Zion State Bank & Trust Co.,* 86 Ill.2d 135, 56 Ill.Dec. 51, 427 N.E.2d 131, 134 (1981). This good-faith exception recognized in *General Dynamics* has been limited by the Illinois appellate courts. In *Weidner v. Szostek,* 245 Ill.App.3d 487, 185 Ill.Dec. 438, 614 N.E.2d 879, 883-84 (1993), the Illinois appellate court explained that when parties' contracts specifically provide for prejudgment interest on amounts past due,

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[4] Yang also argues that the district court abused its discretion when it denied her motion for costs. Yang premises this argument on the assumption that we would find Liu to be the proper owner of the copyright in the China RevUp32 program. Because we made no such finding, there is no need to discuss this argument.

the good- faith exception set out in *General Dynamics* is inapplicable. However, when a prejudgment interest award is being claimed pursuant to a statute, then the good-faith exception set out in *General Dynamics* may apply. *See id.* Although the Illinois Supreme Court has not spoken directly to this issue, we believe that the Illinois appellate court's position is correct.

Here, Yang is claiming prejudgment interest pursuant to the Illinois Interest Act, 815 ILSC § 205/2. The parties themselves, however, never contemplated awarding prejudgment interest on amounts past due in their agreement. Thus, in this instance the *General Dynamics* good-faith exception could be applicable. Because Yang failed to turn over the source code pursuant to the June 7, 1995 letter agreement, we believe that the district court did not abuse its discretion in finding that payment was being withheld by Price Waterhouse in good faith because of a genuine and reasonable dispute between the parties and that therefore, Yang was not entitled to an award of prejudgment interest.

III. Conclusion

For the foregoing reasons, we AFFIRM the district court.

APPENDIX B

1999 WL 47025

United States District Court, N.D. Ill., Eastern Division.

Xu LIU, Plaintiff-Counterdefendant,

v.

PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC., Defendants-Counterclaimants,

PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC., Third-Party Plaintiffs,

v.

Xiaomei YANG, Third-Party Defendant.

No. 97 C 3093.

Jan. 25, 1999.

MEMORANDUM OPINION AND ORDER

HOLDERMAN, District J.

Plaintiff-Counterdefendant Xu Liu filed a complaint against Defendants- Counterclaimants Price Waterhouse LLP ("PW") and Computer Language Research, inc. ("CLR") (collectively, "PW/CLR") alleging copyright infringement pursuant to 17 U.S.C. § § 501, *et seq.* PW and CLR filed an Answer and Counterclaims against Liu pursuant to the copyright laws of the United States, 17 U.S.C. § § 501,*et seq.*, the Illinois Trade Secrets Act, 765 ILCS 1065/1, *et seq.*, the Illinois Consumer Fraud and Deceptive Practices Act, 815 ILCS 505/2, *et seq.*, and the Federal Declaratory Judgment Act, 28 U.S.C. § 2201. PW and CLR also filed a Third-Party Complaint against Third-Party Defendant Xiaomei Yang for

breach of contract, conversion, and copyright infringement under the copyright laws of the United States. Yang filed an Answer to the Third-Party Complaint and a Counterclaim against PW and CLR pursuant to the Illinois Consumer Fraud and Deceptive Practices Act. Liu and Yang filed a motion for summary judgment seeking to dismiss PW/CLR's counterclaim and third party complaint and Liu filed a motion for summary judgment regarding infringement against PW and CLR. Liu and Yang also filed a motion to strike portions of PW/CLR's authorship defense. In addition, PW and CLR filed three motions for summary judgment against Liu and Yang. For the following reasons, all of these motions for summary judgment are denied.

STATEMENT OF FACTS[1]

This case centers around the changes made to a software program known as "REVUP32." PW's original REVUP32 was an interface program used with PW's Tax Management System (TMS) software program. PW's Tax Technology Group (TTG) developed the TMS program which is used to prepare state and federal tax returns for corporations. REVUP32 allows parts of the TMS program to gain access to the TMS database.

In an effort to increase the operating speed of the original REVUP32, PW asked Yang in March 1995 to go to China to locate programmers who could increase the speed of the program. In China, Yang found programmers at the Sichuan Sky Company, Limited (Sky) in Chengdu and, according to PW, others programmers located in Shanghai and Beijing.[2] After

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[1] The following statement of facts comes from the parties' Local Rule 12(M) and (N) statements of material facts and accompanying exhibits.

[2] Liu and Yang have filed a motion to strike portions of PW/CLR's defense that other programmers than those at Sky authored the version of REVUP32 that Liu copyrighted. Liu and Yang argue in that motion that PW/CLR never explicitly stated that defense in any of their pleadings. In their first affirmative defense, PW/CLR merely stated that "plaintiff does

finding these groups of available Chinese programmers, Yang returned to Chicago in May 1995. PW then gave the source code for the original REVUP32 to Yang so she could deliver it to the Chinese programmers.

The parties dispute the extent to which PW authorized Yang and the Chinese programmers to use the original REVUP32 program. Gerald P. Niles, the Chief Development Officer/Senior Vice-President of TTG, explained the conditions under which TTG would supply the source code for the REVUP32 program in a June 7, 1995 letter from Niles to Yang:

> The Tax Technology Group will supply the source code for RevUp and Runtime. It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied or otherwise, to distribute or copy this source code in any way. Upon completion of the project, ALL source code will be given back to Price Waterhouse.

(emphasis in original). The parties dispute whether the June 7, 1995 letter may be construed as a license. PW argues that it is a license; Yang and Liu argue that it is not a license and that the word "license" never appears in the June 7, 1995 letter. Yang's attorney in an April 1, 1996 letter to PW wrote that Yang had informed Niles of PW before Yang's June 8, 1995 trip to China that PW's statements in the June 7, 1995 letter were a part of the "written assurances [which] were necessary to induce the Chinese programmers to proceed with their work." (Ex. 9 to PW/CLR's Mem. in Opp'n to Yang/Liu's Mot. for Summ J.) In a November 21, 1995 e-mail message to PW discussing the June 7, 1995 letter, Yang wrote: "According to the [June 7, 1995] agreement, the enhancement in the

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not have a valid copyright in the work referred to in the complaint." (Answer and Countercl. by PW/CLR at 11.) Under the notice pleading requirements of the Federal Rules of Civil Procedure, this is sufficient. Liu and Yang's motion to strike PW/CLR's authorship defense is denied.

source code becomes the property of PW upon completion of the project ...." The parties dispute the meaning of that sentence.

Additionally, the June 7, 1995 letter and a letter dated May 22, 1995 set forth other terms regarding the relationship between PW and Yang and the Chinese programmers. Among those additional terms were terms that tied the amount of money to be paid to the Chinese programmers to the percentage increase in the operating speed of the REVUP32 program. Specifically, PW agreed to pay $1,000 for each 1% improvement in the operating speed. PW has never paid Yang or the Chinese programmers any money based on that June 7, 1995 letter. According to PW, PW never paid them because they did not return the source code to PW as required by the June 7, 1995 letter.

After receiving the source code, the Chinese programmers, who were not employees of PW, modified the original REVUP32 program in order to increase its speed. The parties dispute whether Yang worked on the actual modifications to the REVUP32 code. On October 8, 1995, the Chinese programmers, through Yang, forwarded the object code for their final modified version of the REVUP32 program to PW; according to Yang, she forwarded the code merely for testing.

In December 1995, PW sent draft agreements to Yang. These draft agreements were in regard to the assignment to PW of any rights Yang and the Chinese programmers had in the modified REVUP32 program. PW denies that these agreements were necessary for PW to establish ownership of the modified REVUP32 code. Neither Yang nor the Chinese programmers signed the December 1995 draft agreements. Also in December of 1995, CLR purchased TTG from PW.

On or about February 9, 1996, the Chinese programmers and Sky assigned all of their rights, title, and interests in the modified REVUP32 program to Liu. Liu then filed an application for copyright registration on the modified REVUP32

program. The United States Copyright Office issued a Certificate of Registration for the modified REVUP32 program. That Certificate had an effective date of March 15, 1996.

As for TTG's use of the Chinese programmers' version of REVUP32, TTG used that version until TTG replaced it on November 5, 1996 with a version of REVUP32 that Patrick McNerthney, the author of the original REVUP32 program, had modified. CLR contacted McNerthney in January 1996 about the REVUP32 program. The parties dispute the reasons why CLR contacted McNerthney. According to PW/CLR, CLR contacted McNerthney so that McNerthney could optimize the same original REVUP32 program on which the Chinese programmers had worked. According to Yang and Liu, however, CLR contacted McNerthney so that McNerthney could reverse engineer the Chinese programmers' version of the REVUP32 program and then prepare a different version of the modified REVUP32 program which maintained the same optimized speeds produced by the Chinese programmers. The parties also dispute whether McNerthney was independently aware of certain techniques used by the Chinese programmers to increase the performance of the REVUP32 program.

STANDARD OF REVIEW

Under Rule 56(c), summary judgment is proper "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c). In ruling on a motion for summary judgment, the evidence of the nonmovant must be believed and all justifiable inferences must be drawn in the nonmovant's favor. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986). This court's function is not to weigh the evidence and determine the truth of the matter, but to determine whether there is a genuine issue for trial. A party who will bear the burden of proof on a particular issue at trial may not rest on

the pleadings, but must affirmatively demonstrate, by specific factual allegations, that there is a genuine issue of material fact which requires trial. *Celotex Corp. v. Catrett,* 477 U.S. 317, 324 (1986). There is no issue for trial "unless there is sufficient evidence favoring the nonmoving party for a jury to return a verdict for that party." *Anderson,* 477 U.S. at 249.

ANALYSIS

I. *Liu's Copyrighting of the Derivative Work*

The June 7, 1995 letter, which the parties agree authorized the Chinese programmers to prepare a derivative work, did not explicitly authorize the programmers to copyright that derivative work. The June 7, 1995 letter did not, however, explicitly prohibit the programmers from copyrighting their derivative work either. PW/CLR argue that the absence of any authorization to copyright a derivative work necessarily renders Liu's copyright unenforceable pursuant to the Seventh Circuit's decision in *Gracen v. Bradford Exchange,* 698 F.2d 300 (7th Cir.1983). PW/CLR rely on the following portion of the Seventh Circuit's opinion in *Gracen*:

> The initial issue is again the scope of [Gracen, the plaintiff's] implied license from Bradford. Even if she was authorized to exhibit her derivative works, she may not have been authorized to copyright them. Bradford was licensed to use MGM's copyright in its series of collector's plates but not to copyright the derivative works thus created. A copyright owner is naturally reluctant to authorize a licensee to take out copyrights on derivative works-- copyrights that might impede him in making his own derivative works or in licensing others to do so. And it would have made no more sense for Bradford, the licensee, to arm Miss Gracen, its sublicensee, with a weapon--the right to copyright her derivative works--that she could use to interfere with Bradford's effort to get another artist to do the plates if it could not cut a deal with her.

Gracen, 698 F.2d at 303-04.

On its face, this language, despite its lack of any citations, seems to be dispositive of Liu's claim of copyright infringement. In the very next paragraph of the *Gracen* opinion, however, the court made the following statement which makes it clear that the above quoted language was merely dicta:

> We are reluctant to stop here, though, and uphold the dismissal of the complaint on the basis of an issue of fact that the district judge did not address, and that we therefore may have got wrong, so we shall go on and consider his ground for dismissal of the complaint--that Miss Gracen's painting and drawings are not original enough to be copyrightable.

Id. at 304. The court continued its analysis and went on to hold that the plaintiff's painting was not an original derivative work within the meaning of the Copyright Act. *Id.* at 305. To consider the language from *Gracen* quoted by PW/CLR alone would be taking it out of context. *See Theotokatos v. Sara Lee Personal Products,* 971 F.Supp. 332, 340 (N.D.Ill.1997).

Only two other published cases, *Fred Riley Home Bldg. Corp. v. Cosgrove,* 864 F.Supp. 1034, 1037 (D.Kan.1994) and *Gallery House, Inc. v. Yi,* 582 F.Supp. 1294, 1297 (N.D.Ill.1984), have cited *Gracen* for the proposition that the license must explicitly grant a licensee the authority to copyright a derivative work. No other published case has cited *Gracen* for this proposition. Moreover, Professor Nimmer has criticized that portion of *Gracen* as unsupported by the law:

> *Gracen v. Bradford Exchange,* 698 F.2d 300 (7th Cir.1983), would appear to be incorrect in its suggestion that copyright in any derivative work may not be claimed, even if the making of such work had been licensed, unless such license affirmatively included the right to claim copyright in the derivative work. Subject to the exceptions noted above regarding musical ar-

> rangements and ephemeral recordings, the right to claim copyright in a non-infringing derivative work arises by operation of law, not by reason of authority from the copyright owner of the underlying work.

1 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 3.06 n. 14 (1997). For these reasons, this court rejects PW/CLR's argument that *Gracen* dictates that Liu's claim of infringement must fail and that they are entitled to judgment as a matter of law on their copyright claim.

II. *Genuine Issues of Material Fact Exist Regarding Any Substantial Similarity between Liu's Version and McNerthney's Version and the Meaning of Statements Made by Yang and PW*

Liu alleges that the McNerthney version of REVUP32 infringes on her copyrighted version which was produced by the Chinese programmers. Copyright infringement may be proven when it is shown that "the defendant had access to the copyrighted work, and the accused work is substantially similar to the copyrighted work." *Wildlife Express Corp. v. Carol Wright Sales, Inc.* 18 F.3d 502, 508 (7th Cir.1994) (*quoting Atari, Inc. v. North American Philips Consumer Elecs. Corp.*, 672 F.2d 607, 614 (7th Cir.1982)). The determination whether there is substantial similarity is made by the "ordinary observer" test: "whether the accused work is so similar to the plaintiff's work that an ordinary reasonable person would conclude that the defendant unlawfully appropriated the plaintiff's protectable expression by taking material of substance and value." *Id.* at 509 (*quoting Atari,* 672 F.2d at 614). This would require the court to compare McNerthney's version with the Chinese programmers' version. This is a factual determination which is inappropriate for the court to decide in the context of a motion for summary judgment.

Other essential fact questions about which the parties argue concern what Yang meant in her statement in her November 21, 1995 e-mail that "the enhancement in the source

code becomes the property of PW upon completion of the project" and whether the project was actually completed. Other fact questions concern whether Yang contributed to the modification of the original REVUP32 program and the importance of PW's request that Yang and the Chinese programmers sign agreements in which they would assign all of their rights in the modified REUP32 program to PW. These fact questions also preclude this court from granting any of the motions for summary judgment.

CONCLUSION

For these reasons, Liu's and Yang's Motion for Summary Judgment Dismissing Defendants' Counterclaim and Third-Party Complaint [# 50] and Liu's Motion for Summary Judgment [# 107] are DENIED and Liu's and Yang's Motion to Strike Portions of PW/CLR's Authorship Defense [# 80] is DENIED. Price Waterhouse's and Computer Language Research's Motion for Summary Judgment against Liu [# 65], Motion for Summary Judgment against Yang [# 66], and Motion for Summary Judgment [# 111] are also DENIED. The parties are once again strongly urged to discuss the settlement of this case and report on the status thereof on February 11, 1999 at 10:00 a.m.

APPENDIX C

United States District Court
Northern District of Illinois
Eastern Division

LIU **JUDGMENT IN A CIVIL CASE**

v. Case Number: 97 C 3093

PRICE WATERHOUSE et al

- • Jury Verdict. This action came before the Court for a trial by jury. The issues have been tried and the jury rendered its verdict.

- ○ Decision by Court. This action came to trial or hearing before the Court. The issues have been tried or heard and a decision has been rendered.

IT IS HEREBY ORDERED AND ADJUDGED that judgment is entered in favor of defendants Price Waterhouse et al and against plaintiff Liu on the complaint;

Counterclaim: in favor of counter-plaintiffs Price Waterhouse et al and against counter-defendant Liu on the copyright infringement claim in the amount of $200.00 and in favor of counter-defendant Liu and against counter-plaintiff Price Waterhouse et al on trade secret misappropriation claim;

Third Party Claims: in favor of third party plaintiff Price Waterhouse et al and against third party defendant Yang on the claim of contributory copyright infringement in the amount of $200.00 and claims of breach of contract, breach of fiduciary duty and conversion of property in the amount of $0.00 and in favor of third party defendant Yang and against

third party plaintiff Price Waterhouse et al on the claim of trade secret misappropriation;

Counterclaim: in favor of counter-plaintiff Yang and against counter-defendants Price Waterhouse et al in the amount of $600,000.00.

Michael W. Dobbins, Clerk of Court

Date: 11/22/2000 s/_____
J. Smith, Deputy Clerk

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

XU LIU,
Plaintiff,

vs.

CASE NO. 97 C 3093
Judge James F. Holderman

PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC.,
Defendants,

OFFICIAL
VERDICT FORM NO. 1

JURY'S VERDICT AS TO XU (SUSAN) LIU'S CLAIM OF COPYRIGHT INFRINGEMENT AGAINST PRICE WATERHOUSE AND COMPUTER LANGUAGE RESEARCH

Copyright Liability

1. Has Xu (Susan) Liu proven by a preponderance of the evidence that she has a valid copyright in China RevUp32?

   Yes _____ No __X__

   (If you answered "Yes" to question No. 1, then answer questions 2(a) and 3(a). If you answered "No" to question No. 1, then skip all further questions on this verdict form, and sign the verdict form.)

2(a). Has Xu (Susan) Liu proven by a preponderance of the evidence that Price Waterhouse infringed her copyright in China RevUp32?

Yes_____ No_____

(If you answered "Yes" to question No. 2(a), then answer question 2(b). If you answered "No" to question No. 2(a), then go to question 3(a).)

2(b). Has Xu (Susan) Liu proven by a preponderance of the evidence that Price Waterhouse committed willful infringement of her copyright in China RevUp32?

Yes _____ No _____

(Go to questions 3(a).)

3(a). Has Xu (Susan) Liu proven by a preponderance of the evidence that CLR infringed her copyright in ChinaRevUp32?

Yes _____ No _____

(If you answered "Yes" to 3(a) then answer question No. 3(b). If you answered "No" to question 3(as) then go to question 4.).

3(b). Has Xu (Susan) Liu proven by a preponderance of the evidence that CLR committed willful infringement of her copyright in China RevUp32?

Yes _____ No _____

(Go to question 4.)

Damages

4. If you answered "Yes" to question No. 1 and question No. 2(a), then answer question 4(a). If you answered "No" to either question No. 1 or question No. 2(a) then skip question 4(a) and go to question 5.

4(a). What amount of damages, if any, is Xu (Susan) Liu entitled to as a result of Price

Waterhouse's infringement of her ChinaRevUp32 copyright?

$ _____

(Go to question 5.)

5. If you answered "Yes" to question No. 1 and question No. 3(a), then answer question 5(a). If you answered "No" to either question No. 1 or question 3(a) then skip question 5(a) and sign the verdict form.

5(a). What amount of damages, if any, is Xu (Susan) Liu entitled to as a result of CLR's infringement of her ChinaRevUp32 copyright?

$ _____

(Sign the verdict form.)

Signed:

s/_____

Foreperson

s/_____	s/_____
s/_____	s/_____
s/_____	s/_____
s/_____	s/_____

Date:

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

PRICE WATERHOUSE LLP
and,
COMPUTER LANGUAGE
RESEARCH, INC.,
Counterplaintiff and
Third-Party Plaintiffs,
vs.

XU LIU,
Counterdefendant,
and

XIAOMEI YANG,
Third-Party Defendant.

CASE NO. 97 C 3093
Judge James F. Holderman

OFFICIAL
VERDICT FORM NO. 2

JURY'S VERDICT AS TO PRICE WATERHOUSE'S AND COMPUTER LANGUAGE RESEARCH'S CLAIMS AGAINST XU (SUSAN) LIU OF (1) COPYRIGHT INFRINGEMENT AND (2) TRADE SECRET MISAPPROPRIATION AND CLAIMS AGAINST XIAOMEI (CHERYL) YANG OF (1) CONTRIBUTORY COPYRIGHT INFRINGEMENT, (2) BREACH OF CONTRACT, (3) BREACH OF FIDUCIARY DUTY, (4) CONVERSION OF PROPERTY, AND (5) TRADE SECRET MISAPPROPRIATION

Copyright Infringement

1. Have Price Waterhouse and CLR proven by a preponderance of the evidence that they have a valid copyright in pre-China RevUp32 and China RevUp32?

   Yes __X__ No _____

   (If you answered "Yes" to question No. 1, then answer question 2. If you answered "No" to question No. 1, then skip to question 5.)

2. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xu (Susan) Liu infringed their copyright in pre-China RevUp32 and China RevUp32?

   Yes __X__ No _____

   (If you answered "Yes" to question No. 2, then go to answer questions 3 and 4. If you answered "No" to question No. 2, then skip to question 5.)

3. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xu (Susan) Liu committed willful infringement of their copyright in pre-China RevUp32 and China RevUp32?

   Yes _____ No __X__

   (Go to question 4.)

4. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang contributed to Xu (Susan) Liu's infringement of their copyright in pre-China RevUp32 and China RevUp32?

   Yes __X__ No _____

   (Go to question 5.)

Breach of Contract

5. Has Price Waterhouse proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang breached her contract with Price Waterhouse?

Yes __X__ No _____

(Go to question 6.)

Breach of Fiduciary Duty

6. Has Price Waterhouse proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang breached her fiduciary duty with Price Waterhouse

Yes __X__ No ____

(Go to question 7.)

Conversion of Property

7. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang converted Price Waterhouse's or CLR's property?

Yes __X__ No ____

(Go to question 8.)

Misappropriation of Trade Secrets

8. Have Price Waterhouse and CLR proven by a preponderance of the evidence that they have a trade secret in RevUp32 and the post-China RevUp32?

Yes __X__ No ____

(If you answered "Yes" to question 8, then go to answer questions 9 and 10. If you answered "No" to question 8, then skip to question 11.)

9. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang misappropriated Price Waterhouse or CLR's trade secrets?

Yes _____ No __X__

(Go to question 10.)

10. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xu (Susan) Liu misappropriated Price Waterhouse's or CLR's trade secrets?

Yes _____ No __X__

(Go to question 11.)

Copyright Infringement Damages

11. If you answered "Yes" to questions No. 1 and No. 2, then answer question 11(a). If you answered "No" to question No. 1 or No. 2, then skip to question No. 12

    11(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xu (Susan) Liu infringement of their pre-ChinaRevUp32 and ChinaRevUp32 copyrights.

    $ 200.00

    (Go to question 12.)

12. If you answered "Yes" to questions No. 1, No. 2, and No. 4, then answer questions 12(a). If you answered "No" to question No. 1, No. 2 or No. 4, then skip to question No. 13:

    12(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xiaomei (Cheryl) Yang's contributory infringement of their pre-ChinaRevUp32 and ChinaRevUp32 copyrights?

    $200.00

    (Go to question 13.)

Breach of Contract Damages

13. If you answered "Yes" to question No. 5, then answer question 13(a). If you answered "No." to question No. 5, then skip to question No. 14:

    13(a). What amount of damages, if any, is Price Waterhouse entitled to as a result of Xiaomei (Cheryl) Yang's breach her contract with Price Waterhouse?

    $0_____

    (Go to question 14.)

Breach of Fiduciary Duty Damages

14. If you answered "Yes" to question No. 6, then answer question 14(a). If you answered "No" to question No. 6, then skip to question No. 15:

    14(a). What amount of damages, if any, is Price Waterhouse entitled to as a result of Xiaomei (Cheryl) Yang's breach of her fiduciary duty?

    $0_____

    (Go to question 15.)

Conversion of Property Damages

15. If you answered "Yes" to question No. 7, then answer question 15(a). If you answered "No" to question No. 7, then skip to question No. 16:

    15(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xiaomei (Cheryl) Yang's conversion of their property?

    $0_____

    (Go to question 16.)

Misappropriation of Trade Secrets Damages

16. If you answered "Yes" to question No. 8 and No. 9, then answer question 16(a). If you answered "No" to question No. 8 or No. 9, then skip to question No. 17:

    16(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xiaomei (Cheryl) Yang's misappropriation of their trade secrets?

    $_____

    (Go to question 17.)

17. If you answered "Yes" to question No. 8 and No. 10, then answer question 17(a). If you answered "No" to question

No. 8 or No. 10, then skip question No. 17 and sign the verdict form:

17(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xu (Susan) Liu's misappropriation of their trade secrets?

$_____

(Sign the verdict form.)

Signed:

s/_____
Foreperson

s/_____ s/_____
s/_____ s/_____
s/_____ s/_____
s/_____ s/_____

Date:

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

XIOMEI YANG,
Counterplaintiff,

vs.

CASE NO. 97 C 3093
Judge James F. Holderman

PRICE WATERHOUSE LLP and, COMPUTER LANGUAGE RESEARCH, INC.,
Counterdefendants.

OFFICIAL
VERDICT FORM NO. 3

JURY'S VERDICT AS TO XIAOMEI (CHERYL) YANG'S COUNTERCLAIM OF BREACH OF CONTRACT AGAINST PRICE WATERHOUSE AND COMPUTER LANGUAGE RESEARCH

Breach of Contract

1. Has Xiaomei (Cheryl) Yang proven by a preponderance of the evidence that Price Waterhouse breached its contract with her?

   Yes __X__ No ____

   (If you answered "Yes" to question No. 1, then go to question 2. If you answered "No" to question No. 1`, then skip question 2, and sign the verdict form.)

Damages

2. If you answered "Yes" to question No. 1 then answer question 2(a). If you answered "No" to question No. 1 then skip question 2(a) and sign the verdict form.

2(a). What amount of damages, if any, is Xiaomei (Cheryl) Yang entitled to as a result ~~of Price~~ Waterhouse's beach of contract?

$600,000.00

(Sign the verdict form.)

Signed:

s/_____
Foreperson

s/_____
s/_____
s/_____
s/_____

s/_____
s/_____
s/_____
s/_____
s/_____

Date:

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

XU LIU,
Plaintiff-
Counterdefendant,

vs.

PRICE WATERHOUSE
LLP and
COMPUTER
LANGUAGE
RESEARCH, INC.,
Defendants-
Counterplaintiffs,

CASE NO. 97 C 3093
Judge James F. Holderman

PRICE WATERHOUSE
LLP and,
COMPUTER
LANGUAGE
RESEARCH, INC.,
Third-Party Plain-
tiffs -
Counterdefendants,

vs.

XIAOMEI YANG
Third-Party Defen-
dant-
Counterplaintiff

OFFICIAL
SPECIAL INTERROGATORIES

1. In the June 7, 1995 letter agreement (PW/CLR, Exhibit 1/Liu Exhibit 17), did the parties intend that the China RevUp32 program, including the copyright, would become the property of Price Waterhouse upon completion of the project?

   Yes: X No: ____

2. Was the RevUp32 project as contemplated by the June 7, 1995 letter agreement (PW/CLR Exhibit 1/Liu Ex. 17) complete?

   Yes: X No: ____

3. Were the Sichuan Sky programmers the sole and exclusive authors of the enhancements in the pre-China RevUp32 made in China?

   Yes: X No: ____

4. Was Xiaomei Yang a Price Waterhouse employee while she was in China in 1995?

   Yes: X No: ____

5. Was Xiaomei Yang a joint author of any portion of the China RevUp32?

   Yes: ____ No: X

6. Did Xu Liu knowingly fail to advise the Copyright Office of Price Waterhouse's claim to ownership of the China RevUp32 when she applied for the China RevUp32?

   Yes: ____ No: X

7. Is Patrick McNerthney's post-China RevUp32 substantially similar to the China RevUp32?

   Yes: ____ No: X

8. Did the three employment agreements Xiaomei Yang signed in 1992, 1994, and 1996 (Joint Exhibits 35, 36, and 37, respectively) obligate Ms. Yang to use her best efforts to protect Price Waterhouse's copyright interests in China RevUp32 while she was employed by Price Waterhouse?

Yes: __X__ No: ____

9. Did Xiaomei Yang use her best efforts to protect Price Waterhouse's copyright interests in China RevUp32 while she was employed by Price Waterhouse?

   Yes: _____ No: __X__

10. Is any part of China RevUp32 a "work of authorship, improvement or idea" – as defined in Ms. Yang's employment agreements (Joint Exhibits 35, 36, and 37) – that Ms. Yang conceived or made in the course of her employment with Price Waterhouse, whether alone or with others?

    Yes: __X__ No: ____

(Sign the Special Interrogatories)

Signed:

s/_____
Foreperson

s/_____	s/_____
s/_____	s/_____
s/_____	s/_____
s/_____	s/_____

Date:

APPENDIX D

182 F. Supp.2d 666

United States District Court,
N.D. Illinois,
Eastern Division.

Xu LIU, Plaintiff-Counterdefendant,

v.

PRICE WATERHOUSE LLP and Computer Language Research, Inc., Defendant-Counterplaintiffs.

Price Waterhouse LLP and Computer Language Research, Inc., Third-Party Plaintiffs-Counterdefendants

v.

Xiaomei Yang Third-Party Defendant-Counterplaintiff

No. 97 CV 3093.

Feb. 28, 2001.

MEMORANDUM OPINION AND ORDER

HOLDERMAN, District Judge.

At the conclusion of a ten-day jury trial, the jury reached a verdict as to each of the parties' claims. The jury found against plaintiff Xu Liu on her claim of alleged copyright infringement by defendants Price Waterhouse LLP ("Price Waterhouse") and Computer Language Research, Inc.

("CLR"). The jury found in favor of counterplaintiffs Price Waterhouse and CLR on their counterclaim of alleged copyright infringement by Liu and awarded $200 in damages to Price Waterhouse and CLR. The jury also found in favor of Price Waterhouse and CLR on their claim of alleged contributory infringement by third-party defendant Yang and awarded $200 in damages to Price Waterhouse and CLR. The jury found against Price Waterhouse and CLR on their counterclaim and third-party claim of alleged trade secret misappropriation by Liu and Yang. The jury found in favor of Price Waterhouse and CLR on their third-party claims of alleged breach of contract, breach of fiduciary duty, and conversion of property by Yang, but awarded no damages. The jury also found in favor of Yang on her counterclaim against Price Waterhouse and CLR for breach of contract and awarded her $600,000 in damages. This court entered judgment on the jury's verdict on November 22, 2000.

All the parties filed timely motions for judgment as a matter of law under Fed.R.Civ.P. 50(a) at trial. Yang and Liu have now filed a renewed motion for judgment as a matter of law under Rule 50(b), or, in the alternative, for a new trial under Rule 59 and a motion for an award of prejudgment interest. Price Waterhouse and CLR have filed a motion for a remittitur of the $600,000 in damages awarded to Yang on her breach of contract claim. For the following reasons, Yang and Liu's renewed motion for judgment as a matter of law or for a new trial is DENIED. Yang and Liu's motion for prejudgment interest is also DENIED. Price Waterhouse and CLR's motion for remittitur is GRANTED.

BACKGROUND AND FINDINGS BELOW

This litigation arises out of an agreement memorialized in a letter dated June 7, 1995 from Price Waterhouse to Yang ("letter agreement") which authorized Yang to go to China in order to find computer programmers to speed up one of Price Waterhouse's tax programs, the RevUp 32 Program ("the Pre-China RevUp Program" or "Pre-China Program"). The pre-

sent motions largely re-hash issues of law which this court addressed before the trial in rejecting the parties' motions for summary judgment. The facts are throughly detailed in this court's orders denying various motions for summary judgment. *See Liu v. Price Waterhouse LLP and Computer Language Research,* 1999 WL 1012452 (N.D. Ill. Oct 19, 1999); *Liu v. Price Waterhouse LLP,* 2000 WL 1644585 (N.D. Ill. Oct 30, 2000).

By way of brief summary, the evidence at trial showed that Yang did go to China, and employed programmers from the Sky Company ("the Sky Programmers") who sped up the Pre-China Program by at least 250%, resulting in a derivative work ("the China RevUp Program" or "China Program"). The parties disputed who owned the copyright in that work under the June 7, 1995 letter agreement. Price Waterhouse took possession of the China RevUp Program and later sold it to CLR. Patrick McNerthny, working for CLR, later created another version of the RevUp Program ("Post-China RevUp Program"). The Sky Programmers sold their alleged rights in the China Program to Liu, Yang's daughter. Liu registered a copyright in the China Program and filed this action for infringement seeking millions of dollars in damages stemming from Price Waterhouse's sale and use of the China RevUp Program.

In addition to reaching a verdict on the parties' claims, the jury made specific findings of fact by answering a series of special interrogatories. Those findings of fact are as follows: (1) in the June 7, 1995 letter agreement, the parties intended that the China RevUp Program, including the copyright, would become the property of Price Waterhouse upon completion of the project; (2) the RevUp 32 project, as contemplated by the letter agreement, was completed; (3) the Sky Programmers were the sole and exclusive authors of the enhancements in the Pre-China RevUp Program made in China; (4) Yang was a Price Waterhouse employee while she was in China in 1995; (5) Yang was not a joint author of any portion

of the China RevUp Program; (6) Liu did not knowingly fail to advise the Copyright Office of Price Waterhouse's claim of ownership in the China RevUp Program when she applied for its copyright; (7) Patrick McNerthy's Post-China RevUp Program is not substantially similar to the China RevUp 32; (8) the three employment contracts Yang signed in 1992, 1994, and 1996 obligated Yang to use her best efforts to protect Price Waterhouse's copyright interests in the China RevUp Program while she was employed by Price Waterhouse; (9) Yang did not use her best efforts to protect Price Waterhouse's copyright interests in the China RevUp Program while she was employed by Price Waterhouse; and (10) some part of the China RevUp is a "work of authorship, improvement or idea"--as defined in Yang's employment agreements--that Yang conceived or made in the course of her employment with Price Waterhouse, whether alone or with others.

ANALYSIS

I. *Price Waterhouse & CLR's Motion for a Remittitur*

The jury found that Price Waterhouse breached its contract with Yang, and awarded her $600,000 in damages on that claim. Price Waterhouse argues that the jury's award must be reduced because it is not supported by the evidence.

This case is controlled by Illinois law. In Illinois, "the evidence need only to tend to show a basis for the computation of damages with a fair degree of probability." *Medcom Holding Co. v. Baxter Travenol Lab., Inc.*, 106 F.3d 1388, 1398 (7th Cir.1997). A trial judge may vacate a jury's verdict for excessiveness only when the award was "monstrously excessive" or the award has "no rational connection to the evidence." *DeBiasio v. Illinois Cent. R.R.*, 52 F.3d 678, 687 (7th Cir.1995).

Here, the only evidence Yang submitted in support of her breach of contract damages was the invoice to Price Waterhouse for $264,000. Yang's counsel requested only $264,000 in his closing argument, explaining that Yang was entitled to

$1,000 for every percentage point she sped up the RevUp Program, and that it was uncontested that Yang sped up the program by 264 per-cent. Finally, Yang consented to the $264,000 figure in the jury instructions, which stated: "Ms. Yang claims that Price Waterhouse breached its contract with her and seeks $264,000 for the defendants alleged failure to pay."

Nevertheless, Yang argues that the jury could rationally find that she was entitled to additional money because of evidence of tortious conduct by Price Waterhouse found in the record. Yang's "tortious conduct" argument is without merit for two reasons. First, it is not sanctioned by Illinois law. Second, even if it were a viable theory under Illinois law, Yang has not alleged, much less pointed to facts in the record, which prove that Price Waterhouse committed any tort against her.

Yang argues that "[w]hile damages in excess of the claimed contractual injury are not generally allowed under Illinois law, exceptions are permitted where evidence of tortious conduct is presented at trial." In support, Yang cites *Hardin, Rodriguez & Boivin Anesthesiologists, Ltd. v. Paradigm Ins. Co.*, 962 F.2d 628, 638-39 (7th Cir.1992). However, that case does not stand for the proposition for which Yang cites it. Instead, *Hardin* concerns the exception under which punitive damages are available on a contract claim--where the defendant is also found to have committed an independent tort, separate from the breach of contract.

Even if this case fell within the *Hardin* reasoning, however, the only tort Yang comes close to alleging is tortious interference with contract: "PW/CLR's failure to pay the specified amount to Yang 30 days after testing was completed on the China RevUp Program tortiously interfered with the contractual relationship between Yang and the [Sky Company]." (Yang's Mem. in Opp. to PW/CLR's Motion for a Remittitur.) Despite that assertion, Yang does not even try to argue that Price Waterhouse committed all the elements of

tortious interference with contract, i.e., that Price Waterhouse "completed" the tort, rather than just behaved poorly. Even if Yang could show that Price Waterhouse engaged in tortious interference with contract, her claim fails because, unlike in *Hardin,* where the plaintiff alleged and the jury was instructed on the elements of common law fraud, Yang never alleged tortious interference with contract, and the jury was never instructed on its elements. There is thus no basis upon which to conclude that the damages awarded over and above the contract amount were punitive.

The remainder of Yang's argument is that the contract damages may be enhanced because of Price Waterhouse's generally unpleasant behavior. Specifically, Yang argues that Price Waterhouse harmed her ability to perform other projects with the Sky Programmers, threatened to "ruin her" if she sued Price Waterhouse, and unlawfully conditioned her vacation pay on a waiver of contract claims against Price Waterhouse. Presumably, Yang's argument is that such behavior may serve to enhance the damages on a contract claim even if it does not rise to the level of an independent tort. Not surprisingly, Yang cites no case law in support of this position. Nor could she, because even *Hardin* recognizes only that a plaintiff may collect damages above the contract amount if she proves that the defendants engaged in a separate, independent tort. Not only does Yang not argue that Price Waterhouse's acts constitute separate, independent torts, Yang did not ever allege that the acts rose to the level of recognized torts of intentional infliction of emotional distress, assault, or fraud.

In addition, plaintiff consented to the $264,000 figure by not objecting to its inclusion in the jury instructions. Under the law of the Seventh Circuit, "[w]hen parties do not object to jury instructions, these instructions generally become the law of the case." *Jabat, Inc. v. Smith,* 201 F.3d 852, 857 (7th Cir.2000). Once the law of the case is settled, the parties can only argue that the jury did not properly apply the instructions

to the facts. *Id.* By permitting an instruction to be given which clearly limited Yang's contract damages to $264,000, Yang waived her right to claim that damages in excess of the request were warranted. *See id.*

For these reasons, plaintiff has not alleged, much less shown that the jury could have rationally concluded, that Price Waterhouse engaged in any torts separate and independent of the contract claim. In the language of the Seventh Circuit, there was "no rational connection" between the jury's $600,000 award (or any amount greater than $264,000) and the evidence presented on Yang's contract claim. Accordingly, Price Waterhouse's motion for a remittitur must be granted.

II. *Liu and Yang's Renewed Motions for Judgment as a Matter of Law, Or, in the Alternative, for a New Trial*

A. *Liu's Infringement on Price Waterhouse's Copyright*

As noted, the jury found that Price Waterhouse, not the Sky Programmers or Liu, held a valid copyright in the China Rev-Up Program. The jury also found that Liu infringed that copyright and awarded Price Waterhouse $200 for the infringement. Liu and Yang argue that no reasonable jury could have found that Price Waterhouse owned the rights in the China Program or that Liu infringed upon those rights by claiming a copyright in the derivative work.

1. *Ownership of the Copyright Rights in the China RevUp Program*

Liu and Yang argue that they are entitled to judgment as a matter of law because the Sky Programmers were authorized to prepare the China RevUp Program, a derivative work, and it is undisputed that the Sky Programmers never transferred ownership of the copyright to the China RevUp to Price Waterhouse. Liu and Yang reason that because the Sky Programmers lawfully prepared the derivative program, they were the authors, and therefore holders of the copyright under § 103(a) of the Copyright Act. 17 U.S.C. § 103(a). Because

ownership vests initially with the Sky Programmers, Liu and Yang argue, a written assignment was necessary under § 204 of the Copyright Act to transfer copyright rights in the China RevUp Program to Price Waterhouse. 17 U.S.C. § 204. Liu and Yang argue that while Yang and Price Waterhouse may have agreed that the China RevUp Program would become the property of Price Waterhouse upon completion of the project, the Sky Programmers, as authors of the derivative work, never agreed to assign their copyright in the program to Price Waterhouse. Liu and Yang continue that Yang could not have assigned the copyright on the Sky Programmers' behalf because there was no evidence presented that Yang was the agent of the Sky Programmers

Price Waterhouse counters by arguing that there is no need to resort to the Copyright Act to determine whether there was a proper transfer of the copyright from the Sky Programmers to Price Waterhouse because, as the jury found, under the June 7, 1995 letter agreement, the Sky Programmers never had any rights in the China RevUp Program to transfer. The jury found that under the June 7, 1995 letter agreement pursuant to which Yang recruited the Sky Programmers to enhance the RevUp Program, the copyright in the derivative work was to become the property of Price Waterhouse upon completion of the project. The jury also found that the project was completed. Accordingly, Price Waterhouse argues, the China RevUp Program was the property of Price Waterhouse as soon as the project was competed, and there was no need for the Sky Programmers to transfer ownership in the China RevUp Program to Price Waterhouse.

The heart of the parties argument centers upon what is required under the Copyright Act to vest ownership of copyright rights in a derivative work with a party other than the work's author. Price Waterhouse views the June 7, 1995 letter agreement as a license to prepare a derivative work which must be interpreted, just as any other contract, to determine

the intention of the parties regarding the respective rights of the author of the underlying work and the author of the derivative work. Under this view, owners of the right to prepare derivative works may limit and condition the author of the derivative work's right to use the derivative work, including limiting the right to claim a copyright in the derivative work, even if the license is not signed by the author of the derivative work and even if the license is not explicit in prohibiting the author of the derivative work from claiming a copyright in the derivative work. Liu and Yang, on the other hand, maintain that the rights to a derivative work may not vest in nor transfer to anyone other than the author of the derivative work without an explicit assignment of the copyright by the authors of the derivative work (or their agent) in accordance with § 204 of the Copyright Act.

Under copyright law, the holder of copyright rights in an original work may set conditions on any license to prepare a derivative work. It is an "axiomatic copyright principle that a person may exploit only such copyrighted literary material as he either owns or is licensed to use." *Stewart v. Abend*, 495 U.S. 207, 223, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990). It is also undisputed that a "use" of copyrighted material which exceeds the scope of the license constitutes an infringement. *NLFC, Inc. v. Devcom Mid-America, Inc.*, 45 F.3d 231, 235 n. 5 (7th Cir.1995). Accordingly, Price Waterhouse could have limited various uses of the derivative program, and the Sky Programmers and Liu would have violated the license, thereby infringing Price Waterhouse's copyright in the Pre-China Program, if they engaged in any "uses" not allowed by the license. The questions, then, are what is required to prohibit the author of a derivative work from claiming a copyright in the work, and whether claiming a copyright in a work is a "use" within the meaning of the law. Liu and Yang, not surprisingly, argue that a license or other contract must be explicit in assigning rights in the derivative work to a party other than the author, and that claiming a copyright in a work

is not a "use" within the meaning of the law. Price Waterhouse counters that prohibitions on claiming a copyright in a derivative work may be established just like any other limitation on a use of a work, and that claiming a copyright is a use like any other.

Plaintiffs argue that, under copyright law, the jury improperly looked to the letter agreement to determine what "the parties" intended, because only an explicit assignment of the Sky Programmers' rights signed by the Sky Programmers would be sufficient to vest ownership of the copyright in Price Waterhouse. The bulk of the authority, however, does not support Liu and Yang's position. The cases cited by their counsel all concern situations under which one party undisputedly authored and held ownership rights in the work, and the issue was whether that party had transferred those rights to another. *See, e.g., Effects Associates, Inc. v. Cohen,* 908 F.2d 555, 556- 57 (9th Cir.1990) (explaining that work at issue was not a work made for hire, so that copyright vested in the author in the absence of an agreement to the contrary); *Schiller & Schmidt, Inc. v. Nordisco Corp.,* 969 F.2d 410, 412 (7th Cir.1992) (same). Here, by contrast, the dispute turns upon which party was to initially hold the rights in the derivative work.[1]

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[1] The difference between the work for hire doctrine, under which the party creating the work (if not an employee) must explicitly assign his or her rights to the party commissioning its creation, 17 U.S.C. § 201(b), and derivative work licenses, is that the author of a derivative work must get permission to create the derivative work. A derivative work, by definition, is a work based upon a preexisting work, 17 U.S.C. § 101, and the author of a derivative work must either have or acquire the right to use the original preexisting work. A work for hire, by contrast, is composed of original material and could be independently created and copyrighted by the author. As such, it makes sense to require an explicit transfer of ownership in works made for hire to protect the true author's rights in his or her work. A derivative work author, by contrast, is by definition working within the confines of his or her license to create that work and is bound not to infringe the rights of the original work's owner by exceeding the

The bulk of the authority suggests that a license may prevent an author of a derivative work from claiming a copyright in that work, such that claiming a copyright is an infringement of the original work's rights. The bulk of the authority also suggests that such a license need not explicitly state that the copyright in the derivative work will be the property of the original work's owner, and need not be signed by the author of the derivative work in order to be effective. *See, e.g., Gracen v. Bradford Exchange,* 698 F.2d 300, 303 (7th Cir.1983) ("Even if she was authorized to exhibit her derivative works, she *may not have been* authorized to copyright them. Bradford was licensed to use MGM's copyright in its series of collectors' plates but not to copyright the derivative works thus created.") (emphasis added).[2] Even *Nimmer on Copyrights,* which questioned the scope of *Gracen*'s dicta, noted "[o]f course, a license may contractually preclude the licensee from obtaining a copyright in a licensed derivative work." 1 *Nimmer on Copyright* § 3.06 at 3-34.23 n. 14 (Perm. Ed.1997). Expanding on this reasoning, the most recent version of *Nimmer* states "if the pertinent agreement be-

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scope of that license. In the derivative work context, unlike the work for hire context, there are competing interests of two different authors to consider: the original work owner, whose ability to prepare and authorize others to prepare derivative works may be harmed by allowing derivative work authors to copyright the derivative works, and the derivative work authors, who have an interest in protecting their own rights in the new material they contribute to the original work, just like all other authors.

[2] The scope of *Gracen* 's dicta has been explored at length by this court in addressing defendants' motions for summary judgment. In those motions, this court rejected defendants' argument that the authorized author of a derivative work must have explicit permission from the owner of the original work to copyright the derivative work. This court stands by those rulings, but *Gracen* certainly does suggest that a license to prepare a derivative work may or may not include the right to claim a copyright in the derivative work. If a license provides that the derivative work, including its copyright, shall become the property of the original work's author, as the jury found here, then the license does not authorize the author of a derivative work to claim a copyright in that work.

tween the parties affirmatively bars the licensee from obtaining copyright protection even in a licensed derivative work, that contractual provision would appear to govern." 1 *Nimmer on Copyright* § 3.06 at 3-34.26 (Perm. Ed.2000).

This case is precisely in line with those situations contemplated by the *Nimmer* treatise and the *Gracen* court. The June 7, 1995 letter gave Yang and the Sky Programmers a license to prepare a derivative work. That license was ambiguous as to who would have the right to copyright the derivative work. Liu and Yang may be correct that if the license had said nothing at all about copyrights in the derivative work, copyright would have vested in the Sky Programmers as the authors of that derivative work. The license did speak to ownership rights, however, and the jury resolved the ambiguity in the license by finding that the copyright in the derivative work was to vest with Price Waterhouse. As such, the jury found, consistent with *Nimmer* 's hypothetical, that the pertinent agreement between these parties provided that Price Waterhouse would hold copyright protection in the derivative work, and thus barred the Sky Programmers or Liu from claiming that protection. That contractual agreement as found by the jury trumps the Copyright Act's presumptive vesting of copyright protection with the author of the derivative work.

In this sense, the jury found that the parties intended to alter the default rules of copyright ownership by contract just as the Copyright Act alters the default rules for works made for hire. As a work made for hire vests copyright with the person who authorizes the work, rather than the usual creator of the work, so too here the parties altered the default rules of the Act with a contract to prepare a derivative work, rather than with an employment contract. This court sees no reason why factfinders should be permitted to look to extrinsic evidence to determine if a work was "for hire" under an employment contract, but not be permitted to consider extrinsic evidence to determine if a license provided that a copyright in

a derivative work was to vest with a party other than the author. For example, had Yang been an author of the China Program, the jury would have had to determine whether Yang was an employee working within the scope of her employment with Price Waterhouse at the time she created it.[3] In making that determination, the jury would consider the intent behind the June 7, 1995 letter agreement, among other things. This court finds nothing in the plain language or the policies of the Copyright Act which suggests that a different result should occur merely because, as contemplated by the letter agreement, Yang found third parties to create the derivative work. While the Sky Programmers were not parties to the license, the letter agreement license still sets the parties' respective ownership rights and obligations, and a jury was properly permitted to consider extrinsic evidence to interpret its meaning.

This court also rejects Liu and Yang's argument that limiting the right to claim a copyright in a derivative work is somehow different, or requires a clearer statement of intent, than other limitations on "uses" of a copyrighted work. This court finds Liu and Yang's argument that the letter agreement was sufficient to authorize the Sky Programmers to prepare the derivative work, even though the Sky Programmers did not sign it, but was not sufficient to limit the Sky Programmers' rights to claim a copyright in the derivative work to be internally inconsistent. A license may limit any number of statutory rights in a work, and a party may infringe on that license even without knowledge that the license exists. *See NLFC, Inc. v. Devcom Mid- America, Inc.*, 45 F.3d 231, 235 n. 5 (7th Cir.1995) (exceeding scope of license is infringement); 17 U.S.C. § 504 (providing remedies for innocent

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[3] The jury did find that Yang was an employee of Price Waterhouse, but the jury also found that she was not a joint author of the China RevUp Program, and there was no finding or evidence that Yang was an agent for the Sky Programers, the authors of the derivative China RevUp Program, so the work for hire doctrine does not come into play in this case.

infringement). While the Copyright Act makes authors of derivative works the presumptive owners of copyright rights in their contributions, it also allows parties to adjust those rights by contract. Here, the jury found that the parties to the letter agreement did just that--agreed that Price Waterhouse would hold the copyright in the derivative work. Because of the ambiguity in the letter agreement, it was necessary and proper for the jury to consider "the parties" intent in entering into the letter agreement in order to determine the respective rights of Price Waterhouse, Yang, and the subsequent authors of the derivative work, even though those subsequent authors, the Sky Programmers, did not sign the letter agreement.

2. *Liu's Infringement of Price Waterhouse's Copyright in the China RevUp Program*

Liu argues that no rational jury could have found that she infringed on Price Waterhouse's copyright rights for three reasons: (1) the only "use" Liu made of the China RevUp Program was to file a copyright application, (2) Price Waterhouse failed to meet the statutory prerequisites for bringing an infringement action by failing to produce a valid copyright registration or evidence of an attempt to obtain copyright registrations for the pre-China and China RevUp Programs at trial, and (3) statutory damages cannot be awarded for infringement unless the copyright was registered before the infringement occurred.

Liu's infringement argument is easily disposed of. As noted above, any use which exceeds the scope of a license constitutes infringement. *See NLFC, Inc. v. Devcom Mid-America, Inc.*, 45 F.3d 231, 235 n. 5 (7th Cir.1995). Here, the jury found that Price Waterhouse, and only Price Waterhouse, was to own the copyright in the derivative work. A necessary corollary to that finding is that the Sky Programmers, and therefore Liu, did not have the right to claim a copyright in the work. By registering the copyright, Liu exceeded the scope of the derivative work license and therefore infringed Price Waterhouse's copyright.

The Sky Programmers can be held liable for infringement even though they were not parties to the license. Even innocent parties may be liable for infringement, including exceeding the scope of a license. *See* 17 U.S.C. § 504 (providing different remedies for willful and innocent infringements); 17 U.S.C. § 501 (providing that "anyone who violates any of the exclusive rights of the copyright owner ... is an infringer of the copyright or right of the author, as the case may be"). An innocent party, by definition, is not aware of limitations on use included within a license. The Sky Programmers' and Liu's claims of ownership in the derivative China RevUp Program was not authorized by the license under which it was created because that license, per the jury's findings, provided that ownership would vest in Price Waterhouse. As such, Liu's act of claiming a copyright in the China Program on behalf of the Sky Programmers was beyond the scope of the letter agreement license and therefore and infringement, even if an innocent one.

As for the copyright registration claims, Liu argues that Price Waterhouse's failure to produce a copyright registration form for the Pre-China and China Programs at trial is fatal the copyright infringement claim filed by Price Waterhouse against Liu.

The Copyright Act provides that "no action for infringement of the copyright in any United States work shall be instituted until registration of the copyright claim is made in accordance with this title." 17 U.S.C. § 411. No registration is necessary for a derivative work, so long as the underlying original work is registered. *Montgomery v. Noga,* 168 F.3d 1282, 1292-93 (plaintiff satisfied requirements of § 411 as to derivative work by registering original work because protected elements of the original registered work were present in the derivative work); 2 Nimmer on Copyrights § 7.16[B][2], 7-165 (Perm. Ed.2000).

Here, Liu argues that *Noga* is of no use to Price Waterhouse because it failed to present evidence of the registration of the Pre-China RevUp Program.[4] However, Liu's own copyright registration of the Post- China Program identifies Price Waterhouse's Pre-China Programs, registration numbers TX4045760 and TX4057660, as underlying works from which the China RevUp Program was derived. Liu argues that their identification of the Price Waterhouse registration numbers does not alleviate Price Waterhouse's burden to prove the elements of their claim, including a registered copyright in the Pre-China Program. However, neither Yang nor Liu ever disputed, and all parties proceeded at trial under the assumption that, Price Waterhouse held a valid copyright in the Pre-China version of the program. As such, Liu may not raise this issue for the first time in a post-trial argument; it has been waived by the failure to object at trial or to raise the issue in a Rule 50(a)(1) motion for judgment as a matter of law. (Fed.R.Civ.P. 50(a))(2) ("Such a motion shall specify the judgment sought and the law and the facts on which the moving party is entitled to the judgment."). Liu and Yang correctly notes that they have always disputed that Price Waterhouse and CLR hold a valid registered copyright in the China RevUp Program, but Price Waterhouse's undisputed registration of the underlying original work, the Pre-China RevUp Program, is sufficient basis upon which to maintain an infringement action both upon the Pre-China Program and the China Program.[5] *See Noga,* 168 F.3d at 1292-93.

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[4] Liu also argues that *Noga* is inapposite because they only claim a copyright in the new and original aspects of the China Program, not the parts which came from the underlying Pre-China Program. In support, Liu cites evidence of the differences between the two programs. Liu ignores similarities between the two programs. Regardless of the programs' differences, it is undisputed that the China RevUp Program also contains Price Waterhouse's protected expression from the Pre-China Program.

[5] While both sides devoted much of their argument to whether Price Waterhouse had met the statutory prerequisite to filing an infringement

In addition, Liu's act of registering a copyright in the China RevUp Program was sufficient to allow Price Waterhouse's infringement claim to proceed. The plain language of § 411 speaks in the passive voice. It requires that a copyright in the work be registered, but does not require the person claiming the copyright or infringement thereof to register it. *See Vapac Music Pub'g, Inc. v. Tuff 'N' Rumble Mgnt.*, No. 99 CV 10656 JGK, 2000 WL 1006257, at *2 (S.D.N.Y. July 19, 2000) (§ 411 does not require registration by party bringing infringement claim). Here, both the Pre-China RevUp Program and the China Program have indisputably "been registered." As such, § 411 is satisfied and Price Waterhouse and Liu met this statutory prerequisite to filing their respective infringement claims.

Liu and Yang also argue that, even if defendants could maintain an action for infringement under § 411, they cannot recover statutory damages under § 412 because they presented no evidence that copyright in the China RevUp Program was registered before the infringement occurred. Section 412 of the Copyright Act mandates that no award of statutory damages or of attorney's fees shall be made for any infringement of copyright in an unpublished work commenced before the effective date of its registration. 17 U.S.C. § 412. As such, the Pre-China Program must have been registered before Liu's infringement occurred in order for Price Waterhouse and CLR to recover statutory damages for infringement.

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action on the China Program, it is irrelevant whether Price Waterhouse had a registered copyright in the China Program because Price Waterhouse prevailed in its copyright claim by proving that Liu infringed its rights in the Pre-China Program. By exceeding the scope of the license to prepare a derivative work, as thejury found, Liu infringed on Price Waterhouse's rights in the Pre-China Program, regardless of any infringement of Price Waterhouse's rights in the derivative China Program. The China Program is relevant as an infringing work as much as it is a work which was infringed upon.

This court finds that the requirements of § 412 have been met for the same reasons the requirements of § 411 have been met. Liu and Yang have not, until now, suggested that Price Waterhouse did not meet its burden of showing a registered copyright in the Pre-China Program. The evidence made clear that registration of the Pre-China Program preceded Liu's infringement. An act of infringement alleged by Price Waterhouse against Liu was in registering a copyright in the China Program. That registration listed Price Waterhouse's registration numbers for the Pre-China Program. As such, it is clear that the Pre-China Program was registered before Liu claimed a copyright in the China Program. Having shown a registered copyright in the underlying work which pre-dated the infringement, Price Waterhouse and CLR may maintain an action on and recover statutory damages for the resulting derivative work which contains much of the same protectable expression as the underlying work.

For all the reasons stated, the jury was rational in concluding that Price Waterhouse held a valid registered copyright in the Pre-China RevUp Program and in the China RevUp Program and that Liu infringed those rights by exceeding the scope of the license which authorized Yang and the Sky Programmers to develop the derivative work. Liu and Yang's motion for judgment as a matter of law or for a new trial on Price Waterhouse and CLR's copyright infringement counterclaim and cross claim must therefore be denied.

B. *Liu's Copyright Infringement Claim*

For the same reasons Liu argues no rational jury could have found that Liu infringed upon Price Waterhouse's copyright in the China RevUp Program, they also argue that Liu is entitled to judgement as a matter of law on her copyright claim. Liu and Yang argue that copyright rights in the China Program vested with the Sky Programmers as authors of the derivative work, who then validly transferred those rights to Liu. As such, Liu argues, Price Waterhouse violated the Sky Programmers' copyright as a matter of law by selling the

China RevUp Program to CLR. Liu and Yang's argument fails for the same reason as their first--the jury found that the copyright in the derivative China Program was to vest in Price Waterhouse, not the Sky Programmers As such, the Sky Programmers had no copyright rights in the China RevUp Program to transfer to Liu. Because, under the jury's factual findings, Liu has no valid copyright rights in the program, her copyright claim fails.

The jury's finding that the Sky Programmers held no rights in the China Program disposes of two of plaintiffs' arguments brought in this motion. First, Liu is not entitled to any profits from Price Waterhouse's sale of the China Program to CLR. Second, the McNerthny Post-China RevUp Program could not have infringed Liu's copyright in the China Program, regardless of similarity, because she had no copyright rights in the China Program. Plaintiffs' motion for judgment as a matter of law or for a new trial on Liu's copyright infringement must be denied.

C. *Yang's Contributory Infringement*

Yang argues that the jury's finding that Yang contributed to Liu's infringement is erroneous for the same reasons that the jury's finding that Liu violated Price Waterhouse's copyright is erroneous. This court has already rejected that argument and found that the jury could have reasonably concluded that Liu violated Price Waterhouse's copyright rights. There was also sufficient evidence to support the jury's conclusion that Yang contributed to Liu's violation of Price Waterhouse's rights. Accordingly, there is no basis upon which to grant judgment as a matter of law or a new trial on Price Waterhouse and CLR's contributory infringement claim against Yang.

D. *Yang's Breach of Contact and Fiduciary Duty*

The jury found that Yang beached her contractual and fiduciary duties to Price Waterhouse by failing to protect Price Waterhouse's copyright rights in the Pre-China RevUp Pro-

gram. Again, the basis for Yang's argument is that Price Waterhouse had no rights to protect, such that Yang could not have failed to protect Price Waterhouse's rights. This court has already rejected that argument. Price Waterhouse did have copyright rights in the China Program, and there was sufficient evidence to show that Yang was bound by fiduciary duties as a Price Waterhouse employee and contract duties under her employment contracts to protect those rights, but failed to do so. Accordingly, plaintiffs motion for judgment as a matter of law or new trial on Yang's breach of fiduciary and contract duties is denied.

E. *Yang's Conversion of Property*

The jury found that Yang converted Price Waterhouse's property by failing to turn over the source code for the Pre-China RevUp Program and the China Program. Yang argues that she could not be found liable for conversion because Price Waterhouse refused to pay her for the improvements, and thus breached its contract with her. However, the jury could have reasonably found, based on the evidence, that Yang had no right to hold on to the source code, and the reason Price Waterhouse did not pay her is because she refused to turn over the program, not vice-versa. Thus, Yang's motion for judgment as a matter of law and for a new trial on the conversion count must be denied as well.

III. *Yang's Motion for an Award of Prejudgment Interest*

Finally, Yang moves for an award of prejudgment interest on the award of $600,000 in damages for her breach of contract claim, which this court has now reduced to $264,000. Yang argues that she is entitled to prejudgment interest because "the evidence at trial established beyond a doubt that PW/CLR acknowledged, in November-December 1995, this amount of money was due and owing, but failed to pay any monies to Yang for the identified period of time," and the withholding of money was vexatious.

Under the Illinois Interest Act, a creditor may be able to receive interest at the rate of five percent per annum for all monies after they become due on money withheld by an unreasonable and vexatious delay of payment. 815 ILCS § 205/2. However, "[i]nterest is not awarded on money that may be found due, if the person withholding payment has done so in good faith, because of a genuine and reasonable dispute." *General Dynamics Corp. v. Zion State Bank & Trust Co.*, 86 Ill.2d 135, 56 Ill.Dec. 51, 427 N.E.2d 131, 134 (1981); *see also Empire Gas Corp. v. American Bakeries Co.*, 840 F.2d 1333, 1342 (7th Cir.1988).

This court finds that Price Waterhouse withheld payment to Liu because of a genuine and reasonable dispute, and was not unreasonable or vexatious. It is undisputed that Price Waterhouse was to pay Yang $1,000 for each percentage point by which she sped up the RevUp Program, and that even Price Waterhouse's measurements showed that the improved China Program was at least 250% faster. However, the parties disputed other parts of the contract, and the jury ultimately found that Yang breached her contract with Price Waterhouse, as well. Price Waterhouse did not act vexatiously in demanding that Yang recognize its rights in the China RevUp Program before tendering payment. Yang's motion for prejudgment interest is therefore DENIED.

CONCLUSION

For all the reasons stated, plaintiff's motion for judgment as a matter of law under Fed. R. Civ 50(b) or for a new trial under Rule 59 is DENIED in its entirety. Defendants' motion for remittitur is GRANTED. The jury's verdict on all claims shall stand. The jury's award of damages to Yang on her breach of contract claim against Price Waterhouse is REDUCED from $600,000 to $264,000. Yang's motion for prejudgment interest is DENIED.

APPENDIX E

UNITED STATES COURT OF APPEALS
For the Seventh Circuit
Chicago, Illinois 60604
October 17, 2002
Before

Hon. HARLINGTON WOOD, JR., *Circuit Judge*
Hon. MICHAEL S. KANNE, *Circuit Judge*
Hon. ILANA DIAMOND ROVNER, *Circuit Judge*

No. 01-1744 and 01-2119

XU LIU
Plaintiff-Appellant,
v.
PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC.,
Defendants / Third-Party Plaintiffs-Appellees,
v.
XIAOMEI YANG
Third-Party Defendant-Appellant.

Appeals from the United States District Court for the Northern District of Illinois, Eastern Division.

No. 97 C 3093

James F. Holderman, *Judge.*

ORDER

On consideration of the petition for rehearing and petition for rehearing *en banc*, no judge in active service has requested a vote on the petition for rehearing *en banc* and all of the judges of the original panel have voted to deny rehearing. It is, therefore, ORDERED that rehearing and rehearing *en banc* are DENIED.

APPENDIX F

UNITED STATES CODE ANNOTATED
TITLE 17. COPYRIGHTS

§ 101. Definitions

Except as otherwise provided in this title, as used in this title, the following terms and their variant forms mean the following:

* * *

A work is "created" when it is fixed in a copy or phonorecord for the first time; where a work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

* * *

A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

* * *

A "work made for hire" is--

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

In determining whether any work is eligible to be considered a work made for hire under paragraph (2), neither the amendment contained in section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106-113, nor the deletion of the words added by that amendment--

(A) shall be considered or otherwise given any legal significance, or

(B) shall be interpreted to indicate congressional approval or disapproval of, or acquiescence in, any judicial determination, by the courts or the Copyright Office. Paragraph (2) shall be interpreted as if both section

2(a)(1) of the Work Made For Hire and Copyright Corrections Act of 2000 and section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106-113, were never enacted, and without regard to any inaction or awareness by the Congress at any time of any judicial determinations.

§ 103. Subject matter of copyright: Compilations and derivative works

(a) The subject matter of copyright as specified by section 102 includes compilations and derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully.

(b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

§106. Exclusive rights in copyrighted works

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

§ 201. Ownership of copyright

(a) Initial Ownership.--Copyright in a work protected under this title vests initially in the author or authors of the work. The authors of a joint work are coowners of copyright in the work.

(b) Works Made for Hire.--In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.

(c) Contributions to Collective Works.--Copyright in each separate contribution to a collective work is distinct from copyright in the collective work as a whole, and vests initially in the author of the contribution. In the absence of an express transfer of the copyright or of any rights under it, the

owner of copyright in the collective work is presumed to have acquired only the privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series.

(d) Transfer of Ownership.--

(1) The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.

(2) Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.

(e) Involuntary Transfer.--When an individual author's ownership of a copyright, or of any of the exclusive rights under a copyright, has not previously been transferred voluntarily by that individual author, no action by any governmental body or other official or organization purporting to seize, expropriate, transfer, or exercise rights of ownership with respect to the copyright, or any of the exclusive rights under a copyright, shall be given effect under this title, except as provided under title 11.

§ 202. Ownership of copyright as distinct from ownership of material object

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the

object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

§ 204. Execution of transfers of copyright ownership

(a) A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

(b) A certificate of acknowledgement is not required for the validity of a transfer, but is prima facie evidence of the execution of the transfer if--

(1) in the case of a transfer executed in the United States, the certificate is issued by a person authorized to administer oaths within the United States; or

(2) in the case of a transfer executed in a foreign country, the certificate is issued by a diplomatic or consular officer of the United States, or by a person authorized to administer oaths whose authority is proved by a certificate of such an officer.

§408. Copyright registration in general (EXCERPT)

(a) Registration Permissive.--At any time during the subsistence of the first term of copyright in any published or unpublished work in which the copyright was secured before January 1, 1978, and during the subsistence of any copyright secured on or after that date, the owner of copyright or of any exclusive right in the work may obtain registration of the copyright claim by delivering to the Copyright Office the deposit specified by this section, together with the application

and fee specified by sections 409 and 708. Such registration is not a condition of copyright protection.

* * *

§ 409. Application for copyright registration

The application for copyright registration shall be made on a form prescribed by the Register of Copyrights and shall include--

(1) the name and address of the copyright claimant;

(2) in the case of a work other than an anonymous or pseudonymous work, the name and nationality or domicile of the author or authors, and, if one or more of the authors is dead, the dates of their deaths;

(3) if the work is anonymous or pseudonymous, the nationality or domicile of the author or authors;

(4) in the case of a work made for hire, a statement to this effect;

(5) if the copyright claimant is not the author, a brief statement of how the claimant obtained ownership of the copyright;

(6) the title of the work, together with any previous or alternative titles under which the work can be identified;

(7) the year in which creation of the work was completed;

(8) if the work has been published, the date and nation of its first publication;

(9) in the case of a compilation or derivative work, an identification of any preexisting work or works that it is based on or incorporates, and a brief, general statement of the additional material covered by the copyright claim being registered;

(10) in the case of a published work containing material of which copies are required by section 601 to be manufactured

in the United States, the names of the persons or organizations who performed the processes specified by subsection (c) of section 601 with respect to that material, and the places where those processes were performed; and

(11) any other information regarded by the Register of Copyrights as bearing upon the preparation or identification of the work or the existence, ownership, or duration of the copyright.

If an application is submitted for the renewed and extended term provided for in section 304(a)(3)(A) and an original term registration has not been made, the Register may request information with respect to the existence, ownership, or duration of the copyright for the original term.

§ 410. Registration of claim and issuance of certificate

(a) When, after examination, the Register of Copyrights determines that, in accordance with the provisions of this title, the material deposited constitutes copyrightable subject matter and that the other legal and formal requirements of this title have been met, the Register shall register the claim and issue to the applicant a certificate of registration under the seal of the Copyright Office. The certificate shall contain the information given in the application, together with the number and effective date of the registration.

(b) In any case in which the Register of Copyrights determines that, in accordance with the provisions of this title, the material deposited does not constitute copyrightable subject matter or that the claim is invalid for any other reason, the Register shall refuse registration and shall notify the applicant in writing of the reasons for such refusal.

(c) In any judicial proceedings the certificate of a registration made before or within five years after first publication of

the work shall constitute prima facie evidence of the validity of the copyright and of the facts stated in the certificate. The evidentiary weight to be accorded the certificate of a registration made thereafter shall be within the discretion of the court.

(d) The effective date of a copyright registration is the day on which an application, deposit, and fee, which are later determined by the Register of Copyrights or by a court of competent jurisdiction to be acceptable for registration, have all been received in the Copyright Office.

§ 411. Registration and infringement actions

(a) Except for an action brought for a violation of the rights of the author under section 106A(a), and subject to the provisions of subsection (b), no action for infringement of the copyright in any United States work shall be instituted until registration of the copyright claim has been made in accordance with this title. In any case, however, where the deposit, application, and fee required for registration have been delivered to the Copyright Office in proper form and registration has been refused, the applicant is entitled to institute an action for infringement if notice thereof, with a copy of the complaint, is served on the Register of Copyrights. The Register may, at his or her option, become a party to the action with respect to the issue of registrability of the copyright claim by entering an appearance within sixty days after such service, but the Register's failure to become a party shall not deprive the court of jurisdiction to determine that issue.

(b) In the case of a work consisting of sounds, images, or both, the first fixation of which is made simultaneously with its transmission, the copyright owner may, either before or after such fixation takes place, institute an action for infringement under section 501, fully subject to the remedies provided by sections 502 through 506 and sections 509 and

510, if, in accordance with requirements that the Register of Copyrights shall prescribe by regulation, the copyright owner--

(1) serves notice upon the infringer, not less than 48 hours before such fixation, identifying the work and the specific time and source of its first transmission, and declaring an intention to secure copyright in the work; and

(2) makes registration for the work, if required by subsection (a), within three months after its first transmission.

APPENDIX G

Price Waterhous LLP

June 7, 1995

Price Waterhouse LLP agrees to pay $25,000 for each 25% increase in TMS speed resulting from work on the RevUp. After the initial 25% improvement is achieved, payment will be made in $1,000 increments for each percentage increase. For example, if the speed is increased by 49%, Price Waterhouse will pay $49,000.

These speed improvements are based on the sample programs provided by the Tax Technology Group, Price Waterhouse LLP, United States. All timings will be based solely on improvements to RevUp. All work that is done must be compatible with TMS and work in a network environment. Also, the enhanced RevUp must work under WindowsR 3.1 using Win32sTM. Price Waterhouse will be given 30 days upon receipt of the object code to perform acceptance testing. If Price Waterhouse discovers problems, the consultants agree to resolve any and all issues on a timely basis. When issues are resolved, the consultants will give Price Waterhouse an additional 30 days upon receipt of the revised object code to perform acceptance testing. Upon successful completion of acceptance testing and verification of the speed increase, Price Waterhouse will pay the aforementioned amount. The speed increase will be determined based on the following formula:

Percent of Increase = (Old Time/New Time) – 1

Therefore, if a process took 100 seconds to complete and now takes 75 seconds, the increase in speed is 33%. The system

must be running in Windows 3.1 with Win32s whenever timings are taken. The machine used to test results will be a 486/66 with 16 megabytes of RAM. The Tax Technology Group will supply the source code for RevUp and Runtime. It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied or otherwise, to distribute or copy this source code in any way. Upon completion of the project, ALL source code will be given back to Price Waterhouse.

If this project is successful, Price Waterhouse will consider the same consultants as strong candidates for future development projects.

Signed:
S/
Gerard P. Niles
Chief Development Officer/Senior Vice President Tax Technology Group

GPN/hnm